



U.S. Department
of Transportation

**Federal Railroad
Administration**

**First Briefing Report
Covering Period of July 23, 1998 - April 15, 1999**

**Conrail Merger Surveillance: NS, CSX, and CSAO
SIP/Safety Update**

For: Surface Transportation Board
c/o The Honorable Linda J. Morgan
Chairman

(In compliance with MOU of May 19, 1998)

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Executive Summary

The acquisition of the Consolidated Rail Corporation and Conrail Inc., (Conrail or CR) by CSX Transportation, Inc., (CSX) and Norfolk Southern Railway (NS) was approved by the Surface Transportation Board (STB) on July 23, 1998. Each railroad will acquire specified portions of the Conrail system and Conrail assets. Furthermore, CSX and NS will jointly provide service to shippers in what is known as the “Conrail Shared Assets Operations” (CSAO). Recognizing the safety challenges posed by the acquisition, the Federal Railroad Administration (FRA) urged that the acquiring carriers be required to develop comprehensive safety plans as part of the merger process. Consequently, as a condition of the acquisition, STB imposed a requirement for the development and implementation of the “first ever” Safety Integration Plans (SIPs) to help ensure the safe integration of Conrail properties into the systems of the acquiring carriers. To fulfill the STB requirement, FRA assisted CSX, NS, and CSAO in developing comprehensive SIPs that addressed 13 critical safety elements related to railroad mergers. FRA and STB also executed a Memorandum of Understanding (MOU) which specifies that FRA monitor the applicants’ implementation of their SIPs and advise STB of the applicants’ progress and any deficiencies or problems. FRA may also request that STB exercise authority and take corrective actions to address deficiencies related to the merger. This constitutes the first required biannual report and covers the period from July 23, 1998, thru April 15, 1999.

On September 4, 1998, FRA initiated a long-term monitoring program for the Conrail merger by issuing its *Conrail Merger Safety Assessment and Surveillance Plan*, which set up a 33-member Merger Surveillance Team made up of FRA headquarters staff, deputy regional administrators, specialists, and inspectors. The Team performs regular reviews of the railroads’ SIPs, sets up labor/management/public “listening posts,” and conducts both planned and unannounced safety reviews of Conrail’s operations. The SIPs are “living” documents that undergo continued refinement as conditions at CSX, NS, and CSAO continue to evolve. To date, there have been five formal reviews/revisions of the SIPs over a seven-month period.

FRA’s Merger Surveillance Team also conducted a special safety review of the five train incidents that occurred on Conrail during the first quarter of 1999, which resulted in four fatalities, including two collisions, two switching incidents, and a derailment. Conrail management provided the Team with detailed investigative reviews and action plans to prevent a recurrence of the incidents. The Team could not identify a direct causal relationship between these incidents and the ongoing merger integration. FRA also undertook an extensive, two-week, system-wide review of operating practices on Conrail with a 35-member, multi-regional, operating-practices inspection team to assess the overall level of operating safety. Thus far, the current Conrail leadership team, which has been overseeing the railroad’s operation during the interim period between the approval of the merger and “split date,” appears to be carrying out its responsibilities and decisions in a responsible and prudent manner.

FRA has identified several specific areas where issues remain unresolved and has noted these issues in the appropriate sections of this report.

CSX, NS, and CSAO have carried out a significant number of SIP actions in preparation for the split date as outlined in the report; however, Conrail operations during the interim remain substantially the same as they were prior to approval of the merger. Thus far, the merger process has had little impact upon railroad operations or safety. CSX and NS have announced that the split date will occur on June 1, 1999. Although postponed from March, this date now appears firm.

FRA will continue its close surveillance of the merger safety integration. Currently, there are no performance/safety conditions identified or foreseen by FRA on the CSX, NS, and CSAO-acquired territories that are believed to warrant STB oversight action to correct deficiencies and/or address safety problems arising from ongoing integration actions.

Conrail Merger Surveillance: NS, CSX, and CSAO

SIP/Safety Update

I. Background

Mega-Railroads and the Challenges of Safety and Service: While mergers have long been a part of the railroad industry, FRA became concerned that recent mergers involving Class I railroads have resulted in the creation of mega-railroads, which pose new and unique challenges to railroad safety and service. With tens of thousands of employees spanning as much as two-thirds of the United States, the distance between the decision-makers in the corporate board rooms and rank-and-file rail workers at the ballast line becomes immense. The vast size and complexity of the rail operations on these mega-carriers pose significant obstacles to effective communications and coordination elements that are critical to both railroad safety and service.

FRA also found that the careful integration of corporate cultures can be as important to the success of a railroad mega-merger as the integration of route structure, traffic flows, and operating practices. Differences in traditions, values, and expectations among managers, supervisors, and front-line employees must be acknowledged and collective efforts undertaken to unify these cultures, drawing upon the best practices of each, so that the various elements of the newly merged railroad may operate as a single, seamless entity.

On June 23, 1997, CSX Transportation Inc. (CSX) and Norfolk Southern Railway (NS) filed an application with STB to acquire control of Consolidated Rail Corporation and Conrail, Inc., (Conrail or CR) and to divide the assets, including 10,500 miles of track, equipment, and facilities, between them. Under the proposed acquisition plan, NS would acquire 58 percent of Conrail's assets, while CSX would acquire the remaining 42 percent. Certain Conrail assets would be contained in three areas of joint operations known as the Conrail Shared Assets Operations (CSAO) in Detroit, northern New Jersey, and southern New Jersey/Philadelphia. CSX and NS will provide service to shippers in the CSAOs via their own trains, crews, and equipment, with maintenance and dispatching being provided by a jointly owned successor to Conrail. FRA recognized that the complex nature of this merger/acquisition warranted a special effort to address these unique challenges of coordination, communications, and culture.

Safety Integration Plans: FRA responded to the challenge by conducting a formal safety assessment of recent mega-mergers involving the Union Pacific (UP) and Burlington Northern Santa Fe (BNSF) railroads to examine issues and concerns associated with railroad mergers of such a large magnitude. FRA then conducted a thorough safety assessment of the proposed Conrail acquisition, including a review of the applicant's Operating Plans and a risk assessment of 61 Conrail line segments. The Department of Transportation (DOT) filing with STB on October 21, 1997, provided STB with findings and recommendations from the safety assessment. One of the most significant recommendations in the DOT filing was a request that STB require the acquiring railroads to develop, for the first time ever, **Safety Integration Plans (SIPs)** as a

condition of the merger to help ensure the safe integration of Conrail properties into their systems. Subsequently, on November 3, 1997, STB issued an order requiring NS and CSX to prepare their respective SIPs within 30 days.

To aid in the development of the SIPs, FRA established first-ever *SIP Guidelines* (see Appendix Item I) that outlined 13 safety-critical areas that each applicant's SIP would be required to address. NS and CSX each worked collaboratively with FRA to develop their SIPs and met STB's filing deadline (December 3, 1997). FRA acknowledged in its final brief with STB that the applicants had developed sufficient SIPs addressing all of the significant safety issues, and that they provided rational approaches for merger integration.

On May 19, 1998, FRA and STB executed a Memorandum of Understanding (MOU) providing that, if the Conrail merger were approved, FRA would:

- < monitor the impact that the integration of operations has on safety, keep STB informed of progress in implementing CSX/NS/CSAO SIPs and of any deficiencies or problems; thereby enabling STB an opportunity to exercise oversight authority and take corrective actions to identified deficiencies and address safety problems arising out of the transaction; and
- < provide periodic reports to the Board on the SIP implementation process (at least biannually), including a final report when the proposed integration has been satisfactorily completed.

Formal approval of the merger was granted by STB on July 23, 1998, with 83 consequential conditions, some of which included:

- < Applicants to submit SIPs;
- < 5-year oversight;
- < Environmental conditions (some 50 listed actions, many safety orientated);
- < Comply with the National Industrial Transportation League (NITL) agreement to include measurable standards for quarterly performance reporting;
- < Adhere to agreements with Amtrak, the City of Cleveland, railroad labor organizations, and others (many containing important safety elements); and
- < Meet with labor to form task forces to dialogue on implementation/safety issues.

As a result of the merger, CSX will operate approximately 4,000 miles of Conrail routes, and increase its system to 22,300 miles serving 23 States east of the Mississippi, the District of Columbia, and small portions of Quebec and Ontario; NS will operate about 7,200 miles of Conrail routes, and will increase its system to 21,600 miles serving 22 States in the East, plus the District of Columbia and the province of Ontario.

II. FRA's Merger Surveillance Team

On September 4, 1998, FRA's Office of Safety initiated its long-term safety surveillance program for the merger; *FRA's Conrail Merger Safety Assessment and Surveillance Plan* (see Appendix Item II) was unveiled in an orientation session held at FRA headquarters for CSX, NS, and CSAO operations and planning officers. Fifteen senior-level officers attended representing all three organizations. Key attendees included:

- < CSX - Mr. Frank Pursley - Vice President of Operations Support/Safety Integration;
- < NS - Mr. Chuck Wehrmeister - Vice President of Safety and Environmental; and
- < CSAO - Mr. Ronald Batory - Vice President of Operations.

The items contained in FRA's merger surveillance program include:

- < The SIPs and accountability worksheets filed by CSX, NS, and CSAO with FRA, which detail the applicants', allocation of funds, personnel, training commitments, facilities, and other resources;
- < Current operating safety conditions at CSX, NS, and CSAO and their acquired properties; safety audits and surveys; FRA's required statistical reporting; and inspections/violations identified by FRA inspectors;
- < Review of past and ongoing FRA Safety Assurance and Compliance Program (SACP) efforts conducted at each railroad;
- < Close review of progress made on safety conditions set by STB.

Staff members from FRA's Office of Safety have been designated to contact planning officers from NS, CSX, and CSAO at regular intervals to obtain updates of their SIPs, identify new safety commitments (SIPs are "living" documents), and assess the status of safety issues and concerns.

FRA designated 3 Regional Safety Assessment and Surveillance managers and 30 geographically placed merger inspectors/monitors to provide very close surveillance of CSX, NS, and CSAO field integration of the merger; regular, periodic Region reviews are to be conducted and formal biannual written reports identifying safety integration progress are to be provided by FRA to STB.

On August 20, 1998, FRA's Surveillance Management Team, consisting of an Office of Safety headquarters representative and the 3 regional managers from the Team, visited the former Conrail headquarters "Blue Room" operations center, observed the morning planning meeting, and reviewed SIP/safety actions ongoing at former Conrail; other announced and "unannounced" visits and SIP/safety reviews will be accomplished by the management team and individual surveillance monitors as the merger progresses.

III. SIP/Safety Progress Reports

General

Split Date: Although permitted by STB to proceed with merger implementation any time after September 1998, CSX and NS have both elected to proceed toward the split date in a planned, gradual approach to ensure the safe and seamless integration of Conrail's operations into their own railroad systems. STB's requirement that implementing agreements with labor organizations and computer systems integration be in place prior to the split date has postponed the split date to June 1, 1999.

Merger Integration Planning Teams: CSX merger-integration planning is headed by Executive Vice President of Coal and Merger Planning, Michael J. Ward, with three principal teams: Headquarters, Technology, and "Day One." Consultants are assisting in the planning efforts using CPM (Critical Path Method)-type computer tools with over 50,000 project management tasks identified. NS Vice President Nancy Fleischman heads a five-member integration team with full-time responsibilities for NS merger-integration planning. NS has also enlisted consultant services and has established transition implementation teams for specific functions such as train dispatching, crew management, training, operating rules, commuter and passenger train issues, etc.

Transition of Dispatching and Operations: The relocation of current Conrail train dispatching desks is underway and scheduled to be completed in June 1999. Desks at the current Conrail dispatching facilities are being reallocated as follows: Albany to Harrisburg (2 desks), Mt. Laurel to Harrisburg (5 desks); Mt. Laurel to Albany (2 desks), Dearborn to Indianapolis (2 desks), and Indianapolis to Dearborn (2 desks).

Conrail's current operations center in Philadelphia, commonly referred to as the "Blue Room," has already been divided between CSX and NS employees. After the "Split Date," NS will relocate its portion of the operations center to Atlanta, while CSX will retain the Philadelphia center.

Rolling Stock Allocation: CSX and NS have split the existing Conrail locomotive fleet of over 1,900 units by a ratio of 42 percent and 58 percent, respectively. CSX will have more than 800 units, and NS will have 1,128 Conrail units. These units will be conveyed or leased to entities identified as NYC and PRR, which will then lease or sublease the units to CSX and NS, respectively. Prior to the split date, units allocated to CSX will be marked "NYC," and units allocated to NS will retain their Conrail markings but will be renumbered with NS sequence numbers.

CSX and NS have also divided Conrail's current freight car fleet of over 45,000 cars according to the same 42 percent to 58 percent ratio. These cars will be conveyed or leased to NYC and PRR,

which will then lease or sublease the cars to CSX and NS, respectively. Cars allocated to CSX will be marked "NYC," and cars allocated to NS will retain their Conrail markings.

Information Technology and Y2K: Information technology (IT) systems work planned at CSX and NS is nearing completion, and testing of some key cut-over systems is ongoing. For example:

- < The shipment inventory system known as "TRIMS" is being tested and is expected to be ready for cut-over on June 1, 1999.
- < The Train Dispatching System is tested and ready for implementation.
- < CSX and NS are both addressing Y2K compliance of Conrail's IT systems. Certain Conrail operations systems are being made Year 2000 compliant because field rollout of NS and CSX systems on Conrail-allocated territory will not be completed until after the Year 2000. Also, certain Conrail IT systems will continue to operate on CSAO after the merger integration is completed.

Concerns Over Operating Rules Training for Foreign Carriers: The FRA Surveillance Team recently became concerned about NS and CSX provisions for providing operating rules training for employees of Amtrak and other railroads, including shortlines and commuter carriers, that will operate on the NS and CSX acquired after "Split Date." FRA's Surveillance Team has raised this issue directly with NS, CSX, and CSAO and will continue to monitor efforts to ensure that timely rules training is provided to employees of all the railroads that will operate over Conrail territories acquired by CSX and NS

Track Protection at Buffalo, New York: FRA's Surveillance Team identified a safety concern involving a location in Buffalo, New York. Between Conrail's CP Draw and CP 437, there are four adjoining tracks. After "Split Date," two of the tracks will be controlled by NS and two by CSX. Procedures to coordinate track-maintenance fouling time and provisions for dispatchers' protection should be developed. FRA has addressed this concern directly with Conrail, CSX, and NS and will monitor the resolution.

Labor Concerns Over Staffing Needs in Buffalo: Rail labor has expressed concerns over CSX and NS-projected needs for Train and Engine Service personnel in the Buffalo, New York, area. Initially, labor believed that CSX projected a need for 195 engineer positions, while NS projected a need for 40 engineer positions. However, these projections were eventually reduced. CSX now projects jobs for 144 engineers, while NS would require 44 positions. Rail labor has expressed strong reservations over such a significant change in job requirements and questions whether the carriers will be sufficiently staffed to handle the traffic in a safe and efficient manner. FRA will continue to closely monitor rail operations in the Buffalo area.

Interim Conrail Operations

New Conrail Board of Directors: On August 22, 1998, CSX and NS terminated the voting trust that held shares of Conrail common stock and elected a new Conrail Board of Directors:

CSX

John Snow, Chairman/CEO
Pete Carpenter, President, CSX
Mark Arin, EVP, Law and PA
Paul Goodwin, EVP, Finance/CFO

NS

David Goode, Chairman/CEO
James Bishop Jr., EVP Law
Stephen Tobias, Vice Chairman/COO
Henry Wolf, Vice Chairman and CFO

Former Conrail officers and employees are continuing to manage the railroad until split date, thereby retaining institutional knowledge for a smooth transition. Messrs. Tim O'Toole, recently appointed President and CEO of Conrail, and Doug Greer, General Manager of Train Operations, and the entire team of Division operating officers and transportation employees beneath them are operating Conrail day-to-day much as it operated in the past. Messrs. Tony Ingram, NS senior management liaison, and Jim Fallon, CSX senior management liaison, are providing daily oversight and advice at the operations center at Conrail headquarters in Philadelphia.

Safety Reviews of Conrail's Operations Center: Representatives from FRA's Merger Surveillance Team have conducted three safety reviews at Conrail's headquarters in Philadelphia, these reviews took place on November 20, 1998, January 29, 1999 and March 25, 1999. At each of these sessions, the FRA Surveillance Team observed Conrail's early-morning planning meeting with its five divisions and then conducted intensive SIP review/update sessions with CSX, NS, and CSAO representatives. FRA observed that the railroad appeared to be running smoothly, and the overall operation was improving from automobile strikes, harsh winter weather conditions, and recent train accidents. It was noted that critical trains were generally running at or slightly ahead of schedule. Yard congestion appeared to be under control, and Conrail had an adequate supply of train crews to move the freight. No reports were heard of trains being held for power.

At the January 29 meeting, it was reported that Conway Yard had a computer failure; however, the computer problem occurred during a program upgrade that did not appear to be merger-related. The fact that the railroad was able to handle the bulk of the traffic out of Conway, despite the loss of the computer, was an indication that local management had a backup plan and was able to adapt the facility to the emergency without affecting the entire railroad.

Furthermore, FRA observed that the current CSX, NS, and Conrail management team in charge of Conrail operations appears to be sound. Units worked together cohesively and relied upon each other's strengths to address issues. The division personnel were encouraged to raise safety and performance issues during their morning briefings. Conrail field and headquarters managers addressed the daily issues with what can be described as a "can do" attitude.

Indications of the ability of the "interim" Conrail operations team to handle difficult and unforeseen

contingencies can be seen in that Conrail has maintained reliable service despite being faced with the following adverse conditions:

- < On June 21, 1998, Conrail's train PIEL-1B derailed 21 cars on the Harvard connection in the city of Cleveland leading to substantial equipment damage and significant train delays.
- < The General Motors strike that ended in July negatively affected carloadings at Conrail; 26 of the auto maker's 29 assembly plants in North America were shut down for several weeks.
- < On August 14, 1998, the Brotherhood of Maintenance of Way Employees initiated a strike against Conrail over scope issues related to the construction of track in Marysville, Ohio.
- < On January 2, 1999, the blizzard of '99 virtually buried the Midwest with the worst snow storm in over 30 years for the Chicago area. The snow storm drastically affected the operations of all freight carriers, commuter lines, and Amtrak. Several days of sub-zero weather, high winds, and drifting snow caused frozen switches, frozen locomotives, train air brake problems, stranded crews, and signal problems; Conrail had Level-3 weather alerts on the Albany, Dearborn, and Indianapolis divisions, and the lasting effects to operating performance were felt for several weeks.

Performance Measures: Conrail's performance statistics for the first 10 months of 1998 were favorable. Performance measures include Traffic Levels and Assets, Intermodal On-Time Performance, Automotive On-Time Performance, Core Merchandise, and Unit Coal Train Performance. (See Appendix Item III);

Overall Safety Performance: Overall, Conrail's safety performance in 1998 was positive. A noteworthy achievement is the fact that Conrail reported no employee on-duty fatalities in 1998, the first time the railroad has reached the goal of zero employee deaths. In 1998, Conrail achieved record levels of safety with the lowest employee injury rate, the lowest number of highway-rail grade crossing accidents, and the lowest overall accident/incident rate in the railroad's history. (See Appendix Items IV-A and IV-B)

FRA did note an increasing trend in low speed train accidents and derailments occurring in yards. After further analysis, FRA identified three major yards in Elkhart, Indiana; Conway, Pennsylvania; and Selkirk, New York, where most of the increases occurred. FRA is currently working directly with the carrier and its employees to develop action plans at each location to address this concern.

Fatal Rail Accidents and Incidents: While statistics are useful tools in assessing the level of safety of a railroad, FRA recognizes that safety means much more than the sum total of data and statistics. Safety in the railroad industry is a matter of life and death. The loss of even a single life in a railroad-related accident is an unacceptable tragedy. Preventing serious rail accidents must be a top priority, not only for FRA but for the highest levels of railroad leadership. When Conrail experienced three significant train accidents and two switching accidents that resulted in four fatalities during the first quarter of 1999, FRA dispatched a senior-level safety team to meet with top Conrail management to thoroughly analyze these tragic events and devise corrective action plans. The incidents that prompted this investigation included: 1) Port Newark, New Jersey - a switching accident that resulted in a conductor fatality; 2) Stryker, Ohio - a rear end collision in heavy fog that resulted in a conductor and engineer fatality; 3) Ft. Plain, New York - a train derailment that resulted in a major hazmat spill; 4) Alexander, New York - a switching accident that resulted in a conductor fatality when a car turned over while shoveling over a crossing with ice and snow in the flange way; and 5) Momence, Illinois - a Conrail freight train failed to stop at an at-grade rail crossing and collided with a Union Pacific freight train resulting in injuries to three crew members.

Under the direction of FRA's Acting Deputy Associate Administrator for Safety Assurance, FRA's Merger Surveillance Team conducted a special safety review of the four train incidents with senior Conrail management at the railroad's operations center. Together, the senior level Conrail and FRA team conducted a detailed review and analysis of investigative reports concerning each incident. Subsequently, Conrail was directed to develop action plans to prevent a recurrence of similar incidents. Conrail did develop action plans to address each incident and submitted copies of the plans to FRA's Office of Safety. Several of these plans deal with accidents that are still under investigation by the National Transportation Safety Board and formal findings of cause have yet to be issued. In these cases, Conrail's action plans must be regarded as interim measures. The Merger Surveillance Team identified no direct causal relationship between these incidents and the ongoing merger integration.

FRA Operating Practices Assessment: FRA also undertook an extensive, two-week system wide review of operating practices on Conrail with a 35-member Federal and State inspection team consisting of operating practices inspectors from FRA Regions 1, 2, 3, 4, and 6. The purpose of this review was to assess the overall level of operating safety and to ensure that Conrail managers, front-line supervisors, and rank-and-file employees remained focused on safety during this interim period. During a merger, it is not unusual for railroad personnel to experience anxiety over workplace changes associated with the merger. FRA believes an extra effort is often necessary to maintain a strong focus on safety during such times.

From March 29 through April 9, the inspection team conducted focused inspection activities, including 382 train rides involving 7,817 miles in both local and over-the-road service. The team also conducted operating-practices efficiency testing and performed records inspections. At many locations throughout the Conrail system, inspections were conducted on an around-the-clock basis.

Inspectors also conducted listening sessions with several hundred Conrail managers and employees to learn their views about the state of safety on Conrail during this interim period. The inspection team saw no evidence of deterioration in Conrail's supervisory oversight. Furthermore, the team found the level of commitment and attention to safety was very high among Conrail workers, supervisors, and managers in the operating department.

Thus far, FRA believes the current Conrail leadership team, which has been overseeing the railroad's operation during the interim period between the approval of the merger and "split date," appears to be carrying out its responsibilities and decisions in a reasonable and prudent manner.

CSX SIP/Safety Actions

CSX updated its SIP with FRA on 1/23/98, 7/20/98, 8/31/98, 11/9/98, 1/29/99, and 3/25/99. The present SIP contains some 85 safety action items that identify resource commitments and time lines, including personnel, facilities, and training. All SIP action items as reviewed are on schedule. Furthermore, CSX is on schedule with all work/safety commitments to STB as specified in the conditions of Appendix Q of the merger approval.

CSX's integration efforts over the past several months have emphasized:

- G hiring extra engineers and conductors to protect potential traffic;
- G managing "churn" (minimizing turnover and displacement of personnel) for all groups; and
- G leaving existing organizations in place.

Retention of Institutional Knowledge: CSX has made a significant effort over the past several months to retain "institutional knowledge" from Conrail by hiring senior officers and other management employees to join the CSX team; some of the senior management hired by CSX include:

Mr. Ronald Conway - Exec. VP of Operations (former CR Sr. VP Operations);
Mr. Lester Passa - President CSX Intermodal (former CR VP-Automotive Group);
Mr. Frank Nichols - Sr. VP- Employee Relations (former CR SR. VP- Org. Per.);
Mr. Gerry Gates - VP Consolidation & Day 1 Team Ldr. (former VP Cust. Sup.);
Mr. Gary Spiegel - VP Network Operations (former CR VP Service Delivery);
Mr. James Kasprzycki - GM Conrail Engr. (former CR Dir. Asset Optimization);
Mr. Wayne Richards - GM. Servc. Lane Integration (former CR Gen. Mgr.); and
Mr. Howard Elliott - Dir. Hazardous Materials (former CR Director Hazmat Sys.).

Three former Conrail board members were appointed to the CSX corporation board: H. Furlong Baldwin, former U.S. Secretary of Transportation Claude S. Brinegar, and E. Bradley Jones (30 years of Conrail Board experience).

Safety Culture: CSX established a Cultural Enrichment Team in early 1998 consisting of the CSX chief safety officer, a cross section of headquarters and field managers, and a cross section of labor representatives focusing on the following key issues: 1) safe work environment, 2) building trust and teamwork, 3) premiere service, and 4) work atmosphere.

- # CSX vice president's "safety blitz" consisting of listening posts were held on all CSX service lanes in late 1998. Vice president "Safety Champions" are being paired as safety advocates for all operating units in the field during 1999.

- # On July 1, 1998, CSX announced a new “Individual Development and Personal Accountability Policy” for all United Transportation Union (UTU) and Brotherhood of Locomotive Engineers (BLE) employees, which replaces its former disciplinary policy; the Yardmaster’s Union, American Train Dispatchers, Brotherhood of Maintenance of Way Employes (BMWE), and the Mechanical crafts have since joined in the policy. This policy is intended to be implemented on the acquired Conrail properties.

Labor Agreements: Labor-implementing agreements were reached by CSX in conjunction with NS on a voluntary basis with all the labor organizations except the BMWE and the BLE. Arbitration pursuant to the protective conditions imposed by STB was conducted with BMWE and a decision was rendered on January 14, 1999, imposing an implementing agreement with both parties. BMWE has now appealed that decision to STB. Also, the voluntary agreement reached with the Transport Workers Union (TWU), representing certain carmen on Conrail, failed ratification. As a consequence, arbitration was required and a decision was rendered on February 27, 1999, which imposes an implementing agreement on the parties. Finally, in the case of the BLE, an agreement settlement was reached through arbitration.

Training and Instructions: CSX initiated a number of training and instructional initiatives to ensure that employees on the acquired territories will have sufficient knowledge and understanding of CSX operations and procedures to ensure the safety and efficiency of rail operations immediately upon “Split Date.” The following is a brief summary of the more significant training and instructional initiatives.

- < Annual rules certification for CSX train and engine service employees will be provided via multimedia pods in 1999. Conrail employees will retain their two-day classroom certification program for 1999.
- < A unified book of rules for Conrail acquired territories will be developed during the year 2000.
- < Operating rules training is being conducted throughout 1999 on Conrail territory being allocated to CSX. Operating rules training on CSX has nearly been completed using an interactive multimedia computer-based format.
- < In 1998, CSX established two facilities to offer five-week conductor classroom training courses for employees on the Conrail territories, one in Rome, New York, and the other in Philadelphia.
- < The split date rulebook with both Northeast Operating Rules Advisory Committee (NORAC) and CSX rules is ready for distribution. Timetables have been developed and will be available for split date, but are not yet printed.

Staffing Levels: CSX has calculated the staffing requirements to handle traffic increases that result from the acquisition and to compensate for attrition. Consequently, the railroad has hired/promoted approximately 2,000 train crew (T&E) members in 1998; 1,298 conductors were promoted in 1998, and an additional 810 are in the pipeline for 1999. CSX has established schools in Atlanta, Cincinnati, Philadelphia and Jacksonville to train new employees. A "Train the Trainer" program has been developed with 25 trainers now on the affected service lanes and 35 new Road Foremen of Equipment (RFE's) have been deployed.

Wave I job offers to Conrail field employees was completed in June 1998 (94 percent acceptance rate); Wave II offers including Headquarters and Commercial personnel were completed at the end of 1998 (75 percent acceptance rate).

Fatigue Mitigation: CSX is developing specific Fatigue Countermeasures and Alertness Awareness programs applicable to all employees, including those in the Conrail acquired territory.

Y2K: Primary efforts to make CSX's information technology (IT) systems Y2K compliant have been completed and verification testing is currently underway. A plan for the retirement of Conrail's IT systems has been completed. Portions of the Conrail IT system that are intended to support CSAO operations will remain in place. Conrail movements began appearing on CSX data screens in late 1998. A 25-person group will be added to CSX's command center at Jacksonville to teleconference with Conrail's Nation Customer Service Center (Pittsburgh) prior to split date to monitor IT systems integration.

Infrastructure and Equipment: CSX has undertaken equipment and infrastructure upgrades and modifications to meet the demands of service resulting from the acquisition and to maintain the safety and reliability of rail operations on the merged carrier. The following is a brief description of the status of some of the more significant infrastructure and equipment issues.

- < Current projections for locomotive acquisitions at CSX for 1999 are 36 CW44AC's, 112 CW60AC's and 39 SD70 MAC's (180 in total); CSX's current fleet is 2,829 locomotives. CSXT will receive 817 locomotives from the Conrail fleet at split date.
- < CSX's newly double-tracked, 270-mile high capacity B&O line is now open to traffic after \$220 million in rehabilitation in 1998.
- < A new coal car inspection operation is being added to CSX's SIP commitments; empty coal hoppers will be routed back to MGA coal fields from Northeastern utilities through New Castle, Pennsylvania facility. The railroad has added carmen and inspection tracks.

- < CSX is currently modifying former RF&P corridor 60 HZ locomotive cab signals to be compatible with Conrail system locomotives (100 HZ); 73 CSXT locomotives also affected and are being fitted with additional software/hardware; testing of modifications was ongoing during February 1999.
- < CSX track connections are being constructed on schedule for B&O Double Track, Greenwich and Marion, Ohio, Cleveland Short Line, Philadelphia - Grays Ferry, Philadelphia - Belmont, and River Line Siding Extensions. Conrail has also completed rehabilitation of the Grays Ferry Branch in South Philadelphia, which links the CSX's former B&O East End Subdivision with Conrail's High Line (near the location of Amtrak's PHIL Interlocking). New signals have been installed to protect the branch at both PHIL Interlocking and CSX's 58th Street Interlocking. Train movements on the Grays Ferry Branch are currently handled by Conrail's Philadelphia Division Dispatcher. Train movements over the Grays Ferry Branch are restricted to 10 mph. CSX plans to divert freight traffic onto the Grays Ferry Branch and Conrail's Harrisburg Line in order to reach intermodal terminals in South Philadelphia.
- < CSX has also indicated plans to operate freight traffic destined for North Jersey via the Grays Ferry Branch, the High Line, the Belmont Connection and onto the Trenton Line (former Reading Main Line to Bound Brook, New Jersey).

Communications With the OMID: FRA's Surveillance Team was recently informed by Ontario Midland Railroad (OMID) at Sodus, New York, that, as a result of recent changes in traffic routing by Conrail and computer incompatibility, the OMID is not being notified of cars delivered to it at Newark, New Jersey. Communications with the OMID is important because this shortline carrier does transport hazardous materials. FRA is addressing this concern directly with Conrail and CSX and will continue to monitor this matter to ensure that proper hazardous materials communications protocols between CSX and OMID are established.

NS SIP/Safety Actions

On July 10, 1998, NS announced the formation of a third operating region, the new Northern Region which will join the Eastern and Western regions; the new Northern Region will consist of three divisions (the Harrisburg, Pittsburgh and Dearborn divisions) which will incorporate Conrail acquired territories; formation of a Northern Region safety Committee is ongoing.

Transition implementation teams were established in late 1997 to address key issues such as train dispatching, train crew management, operating rules, commuter and passenger train operations, personnel and others. At NS 120 teams were established with up to 400 management employees involved. NS has updated their SIP with FRA on 1/26/98, 6/15/98, 10/6/98, 11/19/98, 1/29/99 and 3/25/99. Their present SIP contains some 65 safety action items that identify resource commitments and time lines, including personnel, facilities and training. NS has also added 50 safety related STB condition items for tracking, including grade crossings, hazmat emergency response and training. All SIP action items as reviewed are on schedule. Also, NS is on schedule with all work/safety commitments to the STB as specified in the conditions of Appendix Q of the merger approval.

NS integration over the past several months has emphasized:

- # train and Engineer (T&E) hiring and training;
- # employee communication; and
- # cultural integration

Retention of Institutional Knowledge: NS over the past several months has also moved to retain “institutional knowledge” from Conrail by hiring senior officers and other senior management employees to join the NS team; some of the senior management retained include:

Mr. John Samuels - VP Oper. Planning & Budget (former CR VP Oper. Assets);
Mr. William Barringer - Director Safety (former CR Director safety);
Mr. Daniel Mazur - Assist. VP Strategic Planning (former CR AVP Asset Mgt.);
Mr. Joseph Arsenault - Director Systems Dev. (former CR Dir. Sys. Dev.);
Mr. Richard Davidson - Dir. Selection & Placement (former Dir. Select.& Place.);
Mr. James Newton - President Triple Crown Svcs. (Former Pres. ConrailDirect);
Mr. Thomas D. Newhart - Dir. Coal Trans. (former CR GM - Unit Train Svcs.);
Mr. Gregory Comstock - GM Western Reg. (former CR AVP Svc.Design/Net.);
Mr. Hugh J. Kiley, Jr. - AVP Trans. Svcs. (former CR VP Svc. Design & Plan.);
Mr. Robert Huffman - Sr. AVP Intermodal Ops. (former CR GM Interm. Ops.);
Mr. Ramond Rumsey - Chief Eng. Maint. Svcs. (former CR Ch. Eng. RW. Assets);
Mr. Francis Weckerle - Nat'l. Acct. Mgr. (Former CR Dir.- Nat'l. Accts/Chrysler);
Mr. Jeffery Burton - General Soliciter (former CR Sr. Dir. Labor Relations);
Mr. Anthony Licate - Dir. Labor Relations (former CR Dir. Labor Relations);
Mr. Gerhard Thelen - AVP Mechanical (former CR AVP - Engineering).

Safety Culture: NS instituted the “Six Tenets of Safety” program on the Conrail divisions that will make up its Northern Region. The program is designed to teach employees about the principles, practices and values behind the NS safety culture. Employee training on the NS’s Conrail territories is still in progress.

In October, 1997 NS hired safety consultants from DuPont to evaluate three Conrail divisions and the Juanita and Hollidaysburg Shops. The analysis has been completed and their report was recently offered to FRA, where it is currently under review.

Labor Agreements: Labor implementing agreements have been reached by Conrail, CSX and NS with all of the labor organizations except the BMW. Arbitration pursuant to the protective conditions imposed by the STB was conducted with BMW and a decision rendered on January 14, 1999, establishing an implementing agreement for the parties. BMW has now appealed that decision to the STB. Also, the agreement reached with the TWU representing certain carmen on Conrail failed ratification. As a consequence, arbitration was required and a decision was rendered on February 27, 1999, which establishes an implementing agreement for the parties.

Training and Instructions: NS initiated a number of training and instructional initiatives to ensure that employees on the acquired territories will have sufficient knowledge and understanding of NS operations and procedures to ensure the safety and efficiency of rail operations immediately upon “Split Date.” The following is a brief summary of the more significant training and instructional initiatives.

- < NS is using the McDonough, Georgia, simulator for locomotive engineer training and estimates a continuing rate of 500 trainees per year for the combined system. Conrail engineers are still being trained at the Transportation Training Center at Conway Yard until the “Split Date.”
- < Dispatcher training is still being conducted at Conrail offices and will continue past the split date until NS’s dispatching system is completely installed. NS, like Conrail, relies upon division dispatching (versus centralized). Dispatchers desks at Albany, Mt. Laurel and Harrisburg offices have been realigned and relocations are currently in progress and are expected to be completed in June 1999.
- < NS annual operating rules training (eight-hour training class) is presently ongoing on the NS and soon will begin on NS’s Conrail acquired lines. Draft bulletins for modified safety practices and rules will be submitted for management approval 30 days prior to the split date.
- < Training for Accident/Incident reporting will occur during the Second Quarter 1999 involving approximately 550 supervisors.

- < Training materials have been distributed to operating departments and specific training has started on the Northern Region. Twenty-two Training Teams have been established to address customer billing, payroll, crew management, procurement, police, National Customer Service Center, train dispatching, car and locomotive distribution and interline settlement.
- < Conrail and NS both use P.S. Technology for computerized crew management. Training will be provided for 3,800 Conrail T&E employees within 180 days after the split date.

Staffing Levels: One hundred thirty trainees have been hired on Conrail to support staffing needs for the NS's new Northern Region. NS is providing new-hire training for train service personnel at the McDonough, Georgia, Training Center (five months of classroom and OJT learning assignments). NS anticipates training 1,100 new hire trainees per year across its system with approximately 300 on the Northern Region during 1999. Conrail is still using the Academy of Industrial Training outside Philadelphia until split date. NS is presently modifying the Accelerated Conductor's Training program to account for Conrail practices, procedures and facilities.

Training Time for Engineers: At a listening sessions held in Buffalo, Syracuse, and Selkirk, New York, in the first quarter of 1999, the primary safety concern expressed by Conrail Train and Engine service employees was "the lack of time that Conrail required for a new employee to be on the job prior to promotion to locomotive engineer" and the relative inexperience of some of the newly promoted locomotive engineers. NS has policies that should adequately address this concern because it requires new hires to complete at least one year of train service before being permitted to operate a locomotive in training. By contrast the current Conrail program has no such requirement and allows employees to be promoted to locomotive engineer once they have successfully completed training, without regard to prior train service experience.

Operating Rules and Practices: NS has taken significant steps to harmonize operating rules, practices and procedures on the acquired territory. The following is a brief synopsis of some of the more significant operating practices initiatives:

- < NS has joined NORAC as an associate member and applied for full membership.
- < NS Timetables and Bulletin Orders covering the acquired territories are ready for distribution.
- < NS's random drug and alcohol tester (the TK Group) will be used for all of NS tests, including NS's Conrail acquired lines, after the split date.
- < Contracts needed to cover emergency response contractors at NS's Conrail acquired properties are in place for the split date.
- < NS's concept for spill containment yards has been introduced at Conrail (Conway

and Elkhart Yards).

Y2K: NS's information technology systems largely have been made Y2K compliant and testing is underway. Completion and final testing will be accomplished in the third quarter of 1999. The retirement plan for Conrail systems was completed in April 1998.

Equipment and Infrastructure: NS has undertaken equipment and infrastructure upgrades and modifications to meet the demands of service resulting from the acquisition and to maintain the safety and reliability of rail operations on the merged carrier. The following is a brief description of the status of some of the more significant infrastructure and equipment issues.

- < NS will avoid retiring locomotives in 1998 and 1999 to ensure it has sufficient motive power to meet the demands of service. NS also purchased 116 new locomotives in 1998 and will purchase 150 in 1999. Conrail purchased 24 new cab signal equipped locomotives in 1998 for future assignment to NS. NS will have approximately 1,127 locomotives equipped for operation on Conrail lines and Amtrak's Northeast Corridor.
- < NS is participating in the FRA/Conrail/CSX sponsored Positive Train Control project on the Manassas-Harrisburg test corridor; NS is the Phase II project manager.
- < Conrail's grade crossing inventory has been fully integrated into the Norfolk Southern Grade Crossing Inventory system.
- < NS track connections are being constructed on schedule for Sidney, Illinois, Alexandria, Indiana, Cloggsville Rehabilitation, Pattenburg Tunnel (Phase 1), Greencastle, Pennsylvania, Oak Harbor, Columbus, Bucyrus, and Vermillion, Ohio.
- < NS has committed to many merger related facility/track changes, most notably:
 - G Alexandria, Indiana - The new connection to the NS Frankfort District at Alexandria has been established as a remote interlocking, controlled by the NS dispatcher at Fort Wayne. The connection will enable southbound trains on the Conrail Marion Branch to continue east on NS. This would allow Norfolk Southern to move freight traffic between Elkhart, Indiana and Cincinnati, Ohio. Conrail is currently in the process of installing new ties and rail on the Marion Branch.

- G** Columbus, Ohio - NS is progressing with the construction of a new connection to link Conrail's Columbus Line with the NS's Bellevue to Portsmouth, Ohio mainline. A connection at CP Colson, linking the NS line with Conrail's Fort Wayne Line is being rebuilt.
 - G** Charlotte, North Carolina - NS is investing 13.5 million dollars to expand its Charlotte Roadway Shop. The facility designs, manufactures and rebuilds the railroads fleet of maintenance of way equipment. The 57,000 square foot expansion will include a new machine shop and the enlargement of the existing heavy repair facility. The current Conrail Roadway Shop located in Canton, Ohio, will be closed after the split date.
 - G** Bulk Transfer Terminals - NS has opened three new bulk transfer terminals located at Doraville, Georgia (just north of Atlanta), Charlotte, North Carolina, and Chattanooga, Tennessee.
 - G** Intermodal Terminal - NS has agreed to a joint partnership with Bethlehem Steel to develop a new intermodal terminal on the site of the former Bethlehem Steel Mill in Bethlehem. This new terminal will be located on the Lehigh main line (former Lehigh Valley) and will provide easy access to western New Jersey, Philadelphia, and Scranton areas.
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CSAO SIP/Safety Actions

The Conrail corporate identity will survive after split date and will be responsible for managing and operating the CSAO. The CSAO updated its SIP on January 26, 1998; September 4, 1998; November 20, 1998; January 29, 1999 and March 25, 1999. As a living document, the SIP outlines the status of the CSAO's efforts to address 22 safety action items including training requirements, hazardous materials handling issues and IT needs. The SIP also contains the status of 17 safety related matters that stem from conditions imposed by the STB, most of these conditions concern highway/rail grade crossings, hazardous material emergency response and training requirements, each of the 17 items are reported to be progressing on schedule.

After "Split Date," the CSAO will continue to maintain and follow the majority of policies and practices currently in place on Conrail. For example:

- < Current Conrail safety programs will be observed in the CSAO. The Conrail leadership team for the CSAO is committed to continuing efforts to enhance and improve these programs.
- < Designated service delivery for all yards and customer switching within the CSAO territory will be maintained in accordance with current Conrail schedules and commitments. Transitional steps underway ensure that the existing Shared Assets Areas yard and dock service asset are properly preserved and maintained to support this service after "Split Date."

Conrail Leadership Team: The CSAO principal officers and many associated staffers have already been appointed and brought on board; the leadership team includes:

- Mr. Tim O'Toole - President and Chief Executive Officer;
- Mr. Don Nelson - Senior Vice President of Operations;
- Mr. Ron Batory - Vice President Operations;
- Mr. Craig Curry - Chief Environmental and Safety Officer; and
- Mr. Neil Ferrone - Director Safety.

The Governance Team includes the Board of Directors, President and Chief Executive Officer, and the Operations Committee (Engineering, Mechanical, NCSC, Blue Room Operations and five Division General Managers).

Operations and Operating Practices: Conrail will continue to observe the NORAC Rules for operations in the CSAO; thereby ensuring compatibility among the commuter, inter-city passenger and freight entities that operate over the CSAO territory. Dispatcher ranks will be filled with trained Conrail dispatchers familiar with the assigned CSAO territories. Conrail will dispatch North and South Jersey/Philadelphia from an existing Mt. Laurel, New Jersey location. Dispatching for the Detroit Shared Assets Area will initially be from Dearborn, Michigan.

Relocation of the Detroit desk to Mount Laurel is scheduled for August 15, 1999. The following are the significant operating issues that are being addressed.

- < Conrail will handle within the CSAO territory all hazardous materials functions and will be supported by five (5) qualified emergency response contractors.
- < Conrail is finalizing procedural changes, to be effective June 1, 1999, for post accident toxicological testing, certification and qualification of locomotive engineers, physical characteristics training of train and enginemen, train and accident reporting and operational testing.

Competition In The CSAO: Since the first announcements of the Conrail merger acquisition and review of the early SIP filings by NS, CSX and the CSAO, FRA has maintained a keen interest in the planned, joint operation of the CSAO. FRA believes there will be intense competition for business by NS and CSX in the Northern New Jersey/Southern New Jersey shared asset areas. How the CSAO equitably provides services to assemble, dispatch and maintain trains, crews and equipment operated within the shared asset areas will significantly impact the quality and safety of service provided to the northeastern seaboard shippers.

Intermodal facilities may represent a particular challenge for CSAO in managing rail operations in the face of this competition. The North Jersey Operating Shared Assets Area Plan assigns current Conrail intermodal facilities at Croxton, Portside and E-rail to NS. CSXT will operate the intermodal facilities at South Kearney and North Bergen. The facilities of APL, Ltd. and Mahr Terminals commonly referred to as “Express Rail” will be open to both railroads. CSAO officers have pledged neutrality of operations. General assignment guidelines have been formulated and are now being finalized for train routing within the CSAO territories (see Appendix Item V).

Unanticipated congestion or traffic disruptions at these facilities have the potential to migrate well beyond the CSAO area of operations and could impact rail service on CSX, NS or other carriers. FRA’s Merger Surveillance Team will carefully monitor rail operations in the Shared Assets Areas and is prepared to act immediately to work with all parties to resolve potential service problems should they arise.

Equipment and Infrastructure: Upon “Split Date,” CSX and NS will provide a total of 133 locomotives to Conrail for operations in the CSAO territories. FRA-mandated Quarterly Inspections of locomotives for North Jersey and South Jersey will be performed within the CSAO territory. The Detroit Shared Assets Area will receive such inspections outside the CSAO territory from both CSX and NS. The parent companies will perform heavy repairs for all CSAO designated motive power. Since the CSAO will be dependent upon CSX and NS for its motive power needs FRA will continue to monitor the CSAO locomotive fleet to ensure that it is sufficient to handle the traffic needs of this critical area of operations.

The Conrail track budget for the CSAO for 1999 is \$13.5 million. Preliminary budget plans for

the CSAO territories have been formulated. An additional \$6.6 million is earmarked for the bridges and tunnels and other asset improvements. The Communications and Signals budget is \$2.5 million.

Currently a number of construction projects are underway in the North Jersey area. These will provide a direct benefit to Conrail, CSX and NS after the split date. A few of these projects are delineated below:

- G Croxtan Yard - Conrail has initiated improvements at Croxtan Yard located in Jersey City and Secaucus. This facility will go to the NS on split date. Improvements include construction of a 7 track industrial switching yard, each track will hold 30 cars. Plans call for this yard to be the base of operations for the industrial switching crews that will service the former Erie Lackawanna industrial trackage operated by NS and New Jersey Transit. NS also plans to relocate the bulk transfer terminal now located in the center of Croxtan Yard and expand the current intermodal facility into this area.

 - G New York Susquehanna and Western - has established a connection linking Conrail's River Line with the NYS&W's Southern Division at Ridgefield Park, New Jersey. The connection will allow Conrail (later CSX) to have direct access to the CSLI Intermodal facility located at the NYS&W's Little Ferry terminal.

 - G Lehigh Line - On the Lehigh Line (former Lehigh Valley) ties are being replaced between CP Brook (Bound Brook) and CP Potter (Edson, New Jersey). The Pattenburg Tunnel is being single tracked in order to accommodate double stack container trains. In advance of this project, the existing passing siding is being reconfigured. The siding is being extended one mile to the west, from the current CP West Portal interlocking. A new interlocking will be constructed at the west portal of the tunnel. The siding will be eliminated through the tunnel, and only the single track main line will remain in the mile long bore. On the east side of the tunnel, a new interlocking is under construction. This will connect the current passing siding with the single track main line.
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IV. Metropolitan SIP/STB Issues

The Conrail acquisition is especially significant for a number of metropolitan areas, primarily in Ohio and the Chicago area, that had been served by the CSX, NS and Conrail. Anticipated changes in freight traffic flows, route structure and operating practices raised uncertainty among many in these communities about the impact of the acquisition on important issues involving, potential congestion at highway/rail grade crossings, increased train traffic noise in residential areas, changes in employment levels and job assignments for railroad workers and other issues. A number of the STB conditions and items in the SIP's concern issues in these metropolitan areas.

Thus far NS has provided FRA with complete documents, updated as of February 23, 1999, regarding the status of items mandated by the STB as a condition of the merger. NS reports that the STB mandates; including those projects affecting Cleveland, Lakewood, Bay Village, Rocky Run, the Cloggsville Project, the Vermillion Project and others, are all on schedule.

Congressman Dennis Kucinich's office held a Conrail merger progress assessment meeting on March 8, 1999, in Lakewood, Ohio, to discuss acquisition issues that affect the West Shore communities in Ohio. Area Mayors and representatives from NS, CSX, the State of Ohio and the FRA met to discuss the implementation of recently completed agreements involving the parties. Representatives present from NS and CSX indicated that all agreements with their respective companies are on schedule and most will be completed before the June 1 deadline.

Increased Rail Traffic at Highway/Rail Grade Crossings: As a precaution to prepare communities and motorists for increases in rail traffic at highway grade crossings, notification letters will be sent to police agencies for each of the public crossings on rail lines identified as having an increase in rail traffic of eight trains or more, within three months of September 1, 1999. NS and CSX are installing temporary notification signs or message boards on railroad property at each crossing clearly advising motorists of the impending increase in traffic and speeds. These signs will be in place no less than 30 days before, and remain for 6 months after the increase in traffic occurs. Signs will be placed at 81 crossings and installation will be completed by September 1999. The crossings will also carry signs with a 24-hours per day, toll-free phone number to report crossing malfunctions. The railroads will provide sufficient funds to start construction of an underpass at Berea, Ohio, to expedite completion of a grade separation project.

Blocked Highway/Rail Crossings: The City of Olmstead Falls indicated a problem exists with Conrail train crews using their town as a crew change point which results in blocked highway/rail crossings for long periods of time. NS has committed to stopping this practice.

Rail Jobs in the Cleveland Area: There has been considerable uncertainty, particularly among the ranks of Conrail employees, about how the Conrail acquisition would affect rail labor in the greater Cleveland area. As plans for the acquisition began to crystalize it was learned that there would be an overall increase of seven (7) positions among Agreement personnel; this includes clerks, engineers and trainmen. The impact of rail positions is as follows: a net of 59 job

abolishments, 44 job creations, 16 transfers out and 38 transfers in. Even recently, many Conrail employees appear to remain uninformed about the impact the acquisition will have on their positions, especially on territories allocated to the NS. The NS responded by issuing a survey to Agreement employees so they could make their views known about their work preferences.

Coordination of Rail Operations in the Greater Chicago Area: Since the early days of railroading, Chicago has been the nation's pre-eminent railroad transportation hub. The greater Chicago area has nearly 100 rail junctions and at-grade rail crossings, which have long posed significant challenges for the coordination of rail traffic. With the anticipated increase in traffic that is likely to result from the acquisition, FRA has been concerned about the potential for rail traffic congestion in the Chicago area. A service interruption on one railroad can quickly impact rail service on a connecting carrier. Furthermore, the Chicago area has a large number of highway-rail grade crossings, many of which are located on busy city streets, major thoroughfares and in residential neighborhoods. Likewise, rail service disruptions can have a serious adverse impact on highway traffic.

During the first week in April 1999, FRA Administrator Jolene Molitoris met with representatives from CSX, NS and the other major rail carriers in the Chicago area, urging them to work together to better coordinate traffic flows in an attempt to minimize the potential for rail congestion and reduce disruption to highway traffic and residential neighborhoods. The railroads have begun meeting and are in the process of developing coordinated operating and maintenance plans to address these concerns. FRA will continue to monitor the progress of efforts to improve rail traffic flows in the greater Chicago area.

V. Future of the SIP Process

Continued FRA Monitoring: FRA will continue its close surveillance of the Conrail merger integration process in the manner as previously described and will provide biannual reports to the STB about the progress of CSX, NS and CSAO in implementing and updating their SIPs until integration of the Conrail territories into those three entities is successfully completed. In addition to the bi-annual reports, FRA may be called upon by STB to issue special reports relative to the SIP process.

FRA's Merger Surveillance Team will continue to conduct "listening sessions" in the field to obtain direct input from front line employees, rail labor representatives, field supervisors and other parties regarding safety, service and operating concerns as long as the merger integration process continues. Listening sessions in February 1999 between FRA SIP Team Leaders and several rail labor leaders did not reveal any specific safety concerns. However, the labor representatives did express concerns about how the current Conrail employees might be affected by discipline policies and seniority issues on the acquiring railroads.

Joint STB/FRA Rulemaking: Based upon collaboration between the FRA and STB, a joint Notice of Proposed Rulemaking (NPRM) was published in the *Federal Register* on December 31, 1998, establishing proposed criteria and conditions under which Safety Integration Plans would be required in as a condition of future railroad mergers and acquisitions. The proposed rule would require that SIPs be developed for significant mergers and acquisitions as defined in the NPRM. Furthermore, the NPRM outlines the respective roles of the STB and FRA in the development, implementation and oversight in the SIP process.

VI. FRA's Summary Comments on the Status of the Conrail Acquisition

A significant beneficial effect of the SIPs has already been demonstrated in the graduated approach to integration of the acquired Conrail territories used by the acquiring railroads. The retention of many well qualified Conrail managers by CSX, NS and CSAO will allow these carriers to draw upon a high level of institutional knowledge when operating the newly acquired Conrail territories. The staging of implementation actions over the past seven months has lessened the potential for a degradation in safety and performance.

Need for Continuing Effort: Safety requires constant attention and effort. Both CSX and NS are operating safety review trains to view the newly acquired territories and introduce high level managers to Conrail personnel. The carriers are also providing extensive safety training prior to the split date. FRA believes that this is a prudent safety measure. These efforts clearly demonstrate CSX and NS each desire to judiciously integrate the former Conrail properties into their new respective railroads.

Monitoring Competition in the CSAO: FRA believes that it is very important to monitor the operations and performance in the CSAO areas, specifically, intermodal operations of the Northern New Jersey Shared Assets Area. If not properly managed, competition between CSX and NS in these areas could potentially lead to safety concerns or service disruptions that could migrate to other areas of the rail network. FRA will continue to conduct close surveillance of these operations as the merger progresses. CSAO's detailed planning has continued to progress and has provided assurances for the safety of these operations

Interim Conrail Operations: Based upon FRA's recent observations at Conrail's Operations Center and the seven-month period of feedback from FRA's Surveillance Team Conrail is operating well at the present time. Reports indicate the carrier will have increased loadings and revenue for 1998-1999, and that the physical plant and facilities are poised for successful merger integration.

Conclusion: Between the time of this report and "Split Date," CSX, NS and CSAO must have IT systems work complete and tested; necessary labor agreements in place; training completed; team projects completed and operational readiness established. This work appears to be continuing on schedule. During the period covered by this review, no performance or safety conditions have been identified or foreseen on the NS, CSX, or CSAO acquired territories, arising out of approval of the acquisition or its ongoing integration, that FRA believes would necessitate further STB oversight actions at this time.